

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Marion Township	County Osceola
Fiscal Year End March 31, 2006	Opinion Date June 6, 2006	Date Audit Report Submitted to State July 10, 2006	

We affirm that:

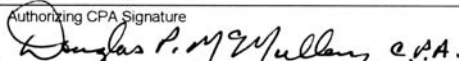
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name Douglas P. McMullen, C.P.A.	License Number 1101007898

MARION TOWNSHIP, OSCEOLA COUNTY

MARION, MICHIGAN

MARCH 31, 2006

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

MARCH 31, 2006

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MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

June 6, 2006

INDEPENDENT AUDITORS' REPORT

To the Township Board
Marion Township
Osceola County
Marion, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Township, Osceola County, Marion, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Township, Osceola County, Marion, Michigan as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Township has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of April 1, 2004.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 18 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Marion Township, Osceola County, Marion, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Marion Township, a general law township located in Osceola County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Marion Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$275,037. Of this amount, \$113,816 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$113,816, an increase of \$13,706 in comparison with the prior year. The entire amount is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for Marion Township. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over time. The Net Assets of the Township are \$275,037 at March 31, 2006, meaning the Township's assets were greater than its liabilities by this amount.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Marion Township
Net Assets as of March 31, 2006

	Governmental Activities
Assets	
Current Assets	\$ 116,682
Non Current Assets	
Capital Assets	207,783
Less: Accumulated Depreciation	<u>46,562</u>
Total Non Current Assets	<u>161,221</u>
Total Assets	\$ <u><u>277,903</u></u>
Liabilities	
Current Liabilities	\$ <u>2,866</u>
Net Assets	
Invested in Capital Assets	161,221
Restricted for Telecommunications Right-of-Way Maintenance	3,062
Unrestricted	<u>110,754</u>
Total Net Assets	<u>275,037</u>
Total Liabilities and Net Assets	\$ <u><u>277,903</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, infrastructure, equipment, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$110,754 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$12,471 or 4.7% in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Marion Township
Change in Net Assets
for the Fiscal Year Ended March 31, 2006

	<u>Governmental Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 13,214
Capital Grants and Contributions	4,800
General Revenues	
Taxes	36,608
State Grants	53,949
Interest Earnings	2,078
Other	645
Total Revenues	<u>111,294</u>
<u>Expenses</u>	
Legislative	2,561
General Government	69,683
Public Safety	15,743
Public Works	2,912
Recreational and Cultural	744
Other Functions	7,180
Total Expenses	<u>98,823</u>
Changes in Net Assets	12,471
NET ASSETS – Beginning of Year	<u>262,566</u>
NET ASSETS – End of Year	\$ <u><u>275,037</u></u>

Governmental Activities

During the fiscal year ended March 31, 2006, the Township's net assets increased by \$12,471 or 4.7%. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

A significant part of the revenue for all governmental activities of Marion Township comes from property taxes. The Township levied 0.9111 mills for operating purposes.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation.

The Township's governmental activities expenses are dominated by general government expenses that total 70.5% of total expenses. The Township spent \$69,683 in fiscal year 2006 on general government expenses. Public Safety represented the next largest expense at \$15,743, or 15.9% of total expenses. Expenses for salaries and contracted services represent a large portion of the general government expenses at \$35,025. Depreciation expense added another \$6,318. An additional \$2,912 of depreciation expense was charged to Public Works.

Business-Type Activities

The Township does not maintain any Business-Type Activities.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Marion Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund – The General Fund increased its fund balance by \$13,706 which brings the fund balance to \$113,816. \$110,754 of the General Fund's fund balance is unreserved. Property tax revenues amounted to \$28,654. State shared revenues amounted to \$50,887.

Proprietary Fund The Township does not maintain any proprietary funds.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of March 31, 2006 amounted to \$161,221 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Marion Township
Capital Assets as of March 31, 2006

		Governmental Activities
		<hr/>
Land	\$	41,000
Land Improvements		48,009
Buildings		16,000
Building Improvements		6,210
Infrastructure		58,230
Equipment		<hr/> 38,334
		207,783
		<hr/>
Less Accumulated Depreciation		46,562
		<hr/>
Net Capital Assets	\$	<u><u>161,221</u></u>

Major capital asset events during the current fiscal year included:

- The Township purchased assessing software at a cost of \$3,195.
- The Township received new voting equipment through a state grant valued at \$4,800.

Long-Term Debt. At March 31, 2006, the Township was not obligated for any long-term debt.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues.

These factors were considered in preparing the Township's budgets for the 2006-07 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Marion Township at 120 East Main Street, Marion, Michigan. 49665.

MARION TOWNSHIP, OSCEOLA COUNTY

MARION, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 87,706
Receivables	
Taxes	4,333
External Parties (Fiduciary Fund)	249
Due from Other Governments	24,394
	<hr/>
Total Current Assets	116,682
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	41,000
Land Improvements	48,009
Buildings	16,000
Building Improvements	6,210
Infrastructure	58,230
Equipment	38,334
	<hr/>
	207,783
Less Accumulated Depreciation	46,562
Net Capital Assets	161,221
	<hr/>
TOTAL ASSETS	277,903
	<hr/>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	2,379
Payroll Taxes and Withholdings	487
	<hr/>
Total Current Liabilities	2,866
	<hr/>
<u>NET ASSETS</u>	
Invested in Capital Assets	161,221
Restricted for Telecommunications Right-of-Way Maintenance	3,062
Unrestricted	110,754
	<hr/>
TOTAL NET ASSETS	\$ 275,037
	<hr/>

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUES
					AND CHANGE IN NET ASSETS
					TOTAL
					GOVERNMENTAL
					ACTIVITIES
<u>PRIMARY GOVERNMENT</u>					
<u>GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 2,561	\$ 0	\$ 0	\$ 0	\$ (2,561)
General Government	69,683	13,214	0	4,800	(51,669)
Public Safety	15,743	0	0	0	(15,743)
Public Works	2,912	0	0	0	(2,912)
Recreation and Cultural	744	0	0	0	(744)
Other Functions	7,180	0	0	0	(7,180)
Total Governmental Activities	\$ 98,823	\$ 13,214	\$ 0	\$ 4,800	(80,809)
<u>GENERAL REVENUES</u>					
Taxes					36,608
State Grants					53,949
Interest Earnings					2,078
Other					645
Total General Revenues					93,280
Change in Net Assets					12,471
<u>NET ASSETS</u> - Beginning of Year					262,566
<u>NET ASSETS</u> - End of Year					\$ 275,037

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN
GOVERNMENTAL FUNDS
BALANCE SHEET
MARCH 31, 2006

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 87,706
Taxes Receivable	4,333
Due from Other Governments	24,394
Due from Other Funds	249
Total Assets	<u>\$ 116,682</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts Payable	\$ 2,379
Payroll Taxes and Withholdings	487
Total Liabilities	<u>2,866</u>
 <u>FUND BALANCE</u>	
Reserved for Telecommunications Right-of-Way Maintenance	3,062
Unreserved	
Undesignated	110,754
Total Fund Balance	<u>113,816</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 116,682</u>

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006

Total Fund Balance for Governmental Funds	\$ 110,754
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$ 41,000	
Land Improvements	48,009	
Buildings	16,000	
Building Improvements	6,210	
Infrastructure	58,230	
Equipment	38,334	
Accumulated Depreciation	<u>(46,562)</u>	<u>161,221</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 271,975</u>
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The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, OSCEOLA COUNTY

MARION, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Taxes	\$ 39,628
State Grants	58,749
Charges for Services	5,300
Interest and Rents	6,972
Other Revenues	645
	<hr/>
Total Revenues	111,294
	<hr/>
<u>EXPENDITURES</u>	
Legislative	2,561
General Government	71,360
Public Safety	15,743
Recreation and Cultural	744
Other Functions	7,180
	<hr/>
Total Expenditures	97,588
	<hr/>
Net Change in Fund Balance	13,706
	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	100,110
	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 113,816
	<hr/>

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2006

Net change in Fund Balance - Total Governmental Funds	\$ 13,706
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(9,230)
Capital Outlay	<u>7,995</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 12,471</u></u>

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
MARCH 31, 2006

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	<u>\$ 249</u>
<u>LIABILITIES</u>	
Due to General Fund	<u>\$ 249</u>

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Marion Township is a general law township located in Osceola County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Township adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Marion Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, Marion Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less from date of acquisition.

(I) The Township authorizes its treasurer to invest funds as follows:

- a. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Township board at the board's organizational meeting after each regular election of the board members.
- c. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. In repurchase agreements consisting of instruments listed in subdivision (a).
- e. In bankers' acceptances of United States banks.
- f. In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by Township. This authorization is limited to securities whose intention is to maintain a net asset value of \$1 per share.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and one-third of county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2005 taxable valuation of Marion Township totaled \$31,449,479, on which ad valorem taxes levied consisted of 0.9111 mills for Township operating purposes. This levy raised approximately \$28,654 for operating purposes.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include land, buildings, building improvements, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Land improvements	20
Buildings	50
Building improvements	20
Infrastructure	20
Equipment	5-10

Marion Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township will capitalize and depreciate infrastructure beginning April 1, 2004, in accordance with the Township's capitalization policy.

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The Township had no long-term obligations at March 31, 2006.

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts presented are as originally adopted on March 29, 2005, or as amended by the Township board from time to time during the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are all on deposit with Citizen's Bank in Marion, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer,

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, \$17,706 of the government's bank balance of \$117,955 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	<u>General</u>
Taxes	\$ 4,333
Due from Other Governments	<u>24,394</u>
	<u>\$ 28,727</u>

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 41,000	\$ 0	\$ 0	\$ 41,000
Capital assets, being depreciated				
Land Improvements	48,009	0	0	48,009
Buildings	16,000	0	0	16,000
Building Improvements	6,210	0	0	6,210
Infrastructure	58,230	0	0	58,230
Equipment	30,339	7,995	0	38,334
Total capital assets, being depreciated	158,788	7,995	0	166,783
Less accumulated depreciation for:				
Land Improvements	8,241	2,333	0	10,574
Buildings	8,160	320	0	8,480
Building Improvements	3,643	132	0	3,775
Infrastructure	1,941	2,912	0	4,853
Equipment and Vehicles	15,347	3,533	0	18,880
Total accumulated depreciation	37,332	9,230	0	46,562
Total capital assets, being depreciated, net	121,456	(1,235)	0	120,221
Governmental activities capital assets, net	\$ 162,456	\$ (1,235)	\$ 0	\$ 161,221

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 6,318
Public Works	2,912
	<u>\$ 9,230</u>

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2006.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2006, were:

<u>FUND</u>	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General Fund	\$ 249	\$ 0
Fiduciary Funds		
Current Tax Collection Fund	0	249
	<u>\$ 249</u>	<u>\$ 249</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

E. Long-Term Debt

At March 31, 2006, the Township was not obligated for any long-term debt.

IV. OTHER INFORMATION

A. Property Tax Administration Fee

The Township passed a resolution on March 26, 1983, to charge a 1% administration fee on all ad valorem taxes levied after this date. Also, a late penalty fee of 3% shall be added after February 14th and shall terminate on the last day of February. The resolution is to continue in force and effect until revoked by the township board.

The Township has determined that authorized costs of tax collection will be repeatedly in excess of the revenue generated by the administration fee so that a restricted earnings account is not reflected in these statements.

B. Retirement Plan

The Township has a defined contribution pension plan with the John Hancock Life Insurance Company which covers all township board members, the Supervisor, the Clerk, and the Sexton. Originally, the annual contribution was 15% of compensation of which 50% was paid by the Township and 50% by the employee. As of August 1, 1997, the annual contribution is 15% of compensation of which 100% is paid by the Township. Participants may make voluntary after-tax contributions, in amounts ranging from 1% to 10% of compensation. The Township's 2005-2006 contribution amounted to \$1,440. Of the total contribution of \$1,440, \$863 was paid with credits to the Township's account and \$577 was cash contributed by the Township. Administration fees amounted to \$75. There are no age or service requirements to participate in the plan. Normal retirement age under the plan is 65. Early retirement is permitted at any time after attainment of age 55.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

For purposes under the plan, including the allocation of employer contributions, compensation means the basic annual rate of compensation, not including bonuses and overtime, in effect at the beginning of each plan year. For the 2005-2006 year, covered compensation was \$9,500 and the total of all wages including noncovered wages was \$35,025.

C. DDA/Tax Increment Finance Authority

The Village of Marion has established a Tax Increment Finance Authority and a Downtown Development Authority which levies taxes on the increase in the state equalized valuation of all real and personal property within their boundaries. The increase is calculated by subtracting the base year state equalized valuations from 1990 from the current year state equalized valuations. The millage rate applied to this increase is the total of the millage rates of County and Township which levy taxes within the Village. For 2005 tax roll the Township collected and remitted \$12,247 to the Downtown Development Authority, on a captured taxable value of \$1,211,140.

D. Fire Protection Contract

The Township contracts with the Marion Community Fire Department for fire protection. The Township pays the equivalent of .5 mill annually to the Fire Department for this protection. For the year 2005-2006, a total of \$15,743 was paid to the Fire Department for fire protection. The Village of Marion maintains the records for the Fire Department.

E. Fund Balance Reserves

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balance. The reserves are detail in the following schedule:

FUND BALANCE/NET ASSETS

Reserved

General Fund

Telecommunications Right-of-Way Maintenance \$ 3,062

F. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	<u>GENERAL FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 38,000	\$ 38,000	\$ 39,628
State Grants	45,000	45,000	58,749
Charges for Services	5,000	5,000	5,300
Interest and Rents	2,000	2,000	6,972
Other Revenues	30,000	30,000	645
Total Revenues	120,000	120,000	111,294
<u>EXPENDITURES</u>			
Legislative			
Township Board	3,500	3,500	2,561
General Government			
Supervisor	2,600	2,600	2,400
Elections	1,000	3,000	6,667
Assessor	24,000	24,000	22,619
Clerk	8,200	8,200	6,871
Board of Review	1,200	1,200	507
Treasurer	8,500	8,500	8,389
Building and Grounds	4,000	4,000	2,392
Cemetery	20,000	22,000	21,515
Public Safety	16,000	16,000	15,743
Public Works	30,000	30,000	0
Recreation and Cultural	800	800	744
Other Functions	8,500	8,700	7,180
Contingencies	10,000	5,800	0
Total Expenditures	138,300	138,300	97,588
Net Change in Fund Balance	(18,300)	(18,300)	13,706
<u>FUND BALANCE</u> - Beginning of Year	100,110	100,110	100,110
<u>FUND BALANCE</u> - End of Year	\$ 81,810	\$ 81,810	\$ 113,816

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED MARCH 31, 2006

	BALANCE			BALANCE
	4/1/2005	ADDITIONS	DEDUCTIONS	3/31/2006
<u>CURRENT TAX COLLECTION FUND</u>				
<u>ASSETS</u>				
Cash	\$ 977	\$ 840,303	\$ 841,031	\$ 249
<u>LIABILITIES</u>				
Due to Other Funds	198	23,269	23,218	249
Due to Other Governments	779	817,034	817,813	0
Total Liabilities	\$ 977	\$ 840,303	\$ 841,031	\$ 249

MARION TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

STATEMENT OF 2005 TAX ROLL
MARCH 31, 2006

	<u>TOTAL</u>	<u>DDA CAPTURE</u>	<u>NET</u>	
<u>TAXES ASSESSED</u>				
County	\$ 288,899	\$ (11,144)	\$ 277,755	
County - State Education Tax	186,887		186,887	
Village of Marion				
Downtown Development Authority		12,247	12,247	
Township	28,654	(1,103)	27,551	
Schools				
Marion Public Schools	256,455		256,455	
McBain Rural Agricultural Schools	3,209		3,209	
Intermediate School				
Wexford-Missaukee	187,516		187,516	\$ 951,620
	<u>\$ 951,620</u>	<u>\$ 0</u>		
<u>TAXES COLLECTED</u>				
County			237,946	
County - State Education Tax			171,106	
Village of Marion				
Downtown Development Authority			12,247	
Township			23,218	
Schools				
Marion Public Schools			223,011	
McBain Rural Agricultural Schools			3,005	
Intermediate School				
Wexford-Missaukee			159,158	829,691
<u>TAXES RETURNED DELINQUENT</u>				
County			39,809	
County - State Education Tax			15,781	
Village of Marion				
Downtown Development Authority			0	
Township			4,333	
Schools				
Marion Public Schools			33,444	
McBain Rural Agricultural Schools			204	
Intermediate School				
Wexford-Missaukee			28,358	<u>\$ 121,929</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

June 6, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Marion Township
Osceola County
Marion, Michigan

During the course of our audit of the basic financial statements of Marion Township for the year ended March 31, 2006, we noted the following items which deserve comment:

Budgeting

The Township is doing an excellent job of complying with Act 621 of the Public Acts of 1978, The Uniform Budgeting and Accounting Act. The only expenditure (elections) exceeding appropriated amounts was for a voting machine for \$4,800, acquired through a grant from the U.S. Government through the State of Michigan.

General Recordkeeping

The accounting records being maintained for the year ended March 31, 2006, were found to be in good order and in compliance with the State's uniform accounting system. We commend the clerk and treasurer for their fine effort.

Property Tax Administration Fee

As reported in the Note IV. A of the Notes to Financial Statements, the Township is charging a 1% property tax administration fee. The Township has determined that authorized costs of tax collection will be repeatedly in excess of revenue generated by the administration fee but has not formally taken action to write off this loss. We recommend that the Township keep subsidiary records which reflect property tax administration fee collections and costs and that the board pass a motion to write off the loss annually.

Internal Control

Approval of bills to be paid was not noted in the meeting minutes of the Township Board. Also, approval for payment was not observed on the bills that were paid. We recommend that the Township Board review and approve the bills to be paid at each meeting. Board approval should be noted in the meeting minutes. Also, as a method of strengthening internal control we recommend that a responsible Township official sign each of the bills the board has approved for payment.

Headlee Rollback

Currently the Township is levying .9111 mills, down from the 1.00 mills authorized. This reduction is due to the Headlee Rollback provisions. The difference of .0889 mill, if reinstated would provide additional tax revenue of \$2,796 yearly to the Township. We recommend the Township consider researching the process of reinstating the mills to be levied to the authorized 1 mill level, or levying millage for roads specifically.

Telecommunications Right-of-Way Revenues

The state restricts the use of these monies to specific items, such as road construction and street lighting. As a result \$3,062 of the General Fund fund balance is restricted. We recommend that this money and all future telecommunications revenues be spent on road construction and road maintenance projects.

GASB 34

The Government Accounting Standards Board has issued Statement #34. We have assisted the Township with complying with the GASB 34 requirements of the State of Michigan and GASB. The financial statements are quite different as a result of this drastic change. We recommend the board review the new financial statements, and we are available to help explain the changes in detail, if needed.

We would like to thank the board for its continued confidence in our firm and thank the township clerk and treasurer for their courtesy and cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

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1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

June 6, 2006

LETTER OF REPORTABLE CONDITIONS

To the Township Board
Marion Township
Osceola County
Marion, Michigan

In planning and performing our audit of the basic financial statements of Marion Township, Osceola County, Marion, Michigan for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.